

**CITY OF SANTA CLARA  
MEMORANDUM ON INTERNAL CONTROL  
FOR THE YEAR ENDED JUNE 30, 2018**

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**CITY OF SANTA CLARA  
MEMORANDUM ON INTERNAL CONTROL**

**For the Year Ended June 30, 2018**

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## MEMORANDUM ON INTERNAL CONTROL

To the City Council of  
the City of Santa Clara, California

We have audited the basic financial statements of the City of Santa Clara for the year ended June 30, 2018, and have issued our report thereon dated December 3, 2018. Our opinions on the basic financial statements and this report, insofar as they relate to the component unit the Santa Clara Stadium Authority, and the Investments in Joint Ventures of the Northern California Power Agency (NCPA), the Transmission Agency of Northern California (TANC) and the San Jose-Santa Clara Regional Wastewater Facility and Clean Water Financing Authority (SJSC), are based solely on the reports of other auditors. In planning and performing our audit of the basic financial statements of the City as of and for the year ended June 30, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control included on the Schedule of Significant Deficiencies and item 2017-01 on the Status of Prior Year Significant Deficiencies to be significant deficiencies.

Included in the Schedule of Other Matters are recommendations not meeting the above definitions that we believe are opportunities for strengthening internal controls and operating efficiency.

Management's written responses included in this report have not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of management, City Council, others within the organization, and agencies and pass-through entities requiring compliance with *Government Auditing Standards*, and is not intended to be and should not be used by anyone other than these specified parties.

Pleasant Hill, California  
December 3, 2018

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## MEMORANDUM ON INTERNAL CONTROL

### SCHEDULE OF SIGNIFICANT DEFICIENCIES

#### 2018-01 Franchise Fees Remittance Errors

The City should ensure all rates charged to third parties are accurate, up-to-date and supported with valid agreements, contracts, ordinances and master fee schedules. In addition, customer remittances that include customer-calculated amounts should be recalculated to ensure they are clerically accurate.

We selected forty receipts for testing and noted one receipt for franchise fees from non-exclusive franchise haulers in the amount of \$196,193 was calculated based on 3%, 10% and 16% of the gross billing categories, but the current franchise agreement requires payment based on 3%, 12% and 18% of the gross billing categories. It appears for the quarter ending September 30, 2017, the rates from the franchise agreement for years 2013-2016 were used, rather than the rates in the most current franchise agreement for years 2016-2019. As a result, the City was underpaid in the amount of \$25,439.

We understand the franchise fee payment form was not updated and used the old rate schedule and as a result the City's franchise fee revenue is understated.

In response to our discovery of the issue, the City completed an audit in July 2018 of all ten of its non-exclusive franchise haulers franchise fee payments for fiscal year 2017 and determined that the full amount of underpayment for that year was \$102,594. City staff has not yet completed an audit of the franchisee fee payments for fiscal year 2018, but estimates the underpayment to be \$75 thousand. The underpayments for fiscal year 2017 are expected to be collected from each franchisee with their October 2018 remittances.

The City must ensure the franchise fee payment form is updated when the rates change and develop procedures to ensure customer remittances that include customer-calculated amounts are recalculated to confirm that they are clerically accurate. In addition, the City should complete the audit of fiscal year 2018 remittances to determine the actual amount due from the franchisees and ensure collection of the underpayments is completed.

#### ***Management's Response:***

The City has established procedures in the Accounts Receivable function of the Accounting Division to ensure that franchise agreements are monitored for collection and accuracy of payment. An additional audit will review the existing NEF hauler agreements and prepare suggestions for the next iteration of these agreements for the 2019-2022 term. This task will also include the creation of an online reporting form to facilitate the ease and accuracy of payments and continued review for accuracy during the 2019-2022 reporting periods.

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## MEMORANDUM ON INTERNAL CONTROL

### SCHEDULE OF OTHER MATTERS

#### 2018-02 Analyze Refundable Deposit Account Balances

To ensure that the deposits payable balance reported in the City's financial statements is accurate, deposits payable detail should be reviewed on a regular basis.

At June 30, 2018, the City reported refundable deposits of \$11.1 million in the Deposits Agency Fund and we selected six individual deposits for testing to agree to supporting documentation and noted the following:

- One deposit in the amount of \$993,304 was titled "Unidentified Balance Carried Forward from FMIS"
- One deposit in the amount of \$583,736 was supported only by the original general ledger transaction detail from November 2005.

We understand City staff has been working to break out the "unidentified" deposits by source and determine that other old outstanding deposits are still valid.

City staff should continue to work to identify all deposits payable balances by source and determine that deposits payable should still be outstanding and not refunded to the depositor. After that project is complete, the deposits payable detail should be reviewed on a regular basis to ensure all balances are active and should be outstanding, at least annually.

#### ***Management's Response:***

The City will include funding for a consultant during the fiscal year 2019-20 budget development process to address deposit balances and assess their validity. The more recent deposit activity is reviewed by staff but the City will document this review as part of its year end close process going forward.

#### 2018-03 Investment Policy – Annual Audit

Section M, Internal Controls, of the City's March 2018 Investment Policy includes the following provision:

**Annual Audit** - On an annual basis, the City's financial statements and business practices are audited by an external auditor. Included in the auditor's annual review shall be a review of the City's investment and cash management accounting and operational practices.

As the City's external auditors, we cannot be part of the City's internal control structure. Although we have been engaged to audit the City's financial statements, we have not been requested to perform a review specific to the investment and cash management accounting and operational practices. We would be happy to perform any procedures the City specifies regarding the investments as a separate engagement. Otherwise, the provision should be revised, such as requiring the review be performed by the City's Internal Auditor, or removed from the Investment Policy.

#### ***Management's Response:***

The City's Investment Policy will be revised to clearly state that this provision will be audited at the direction of the City's Internal Auditor.

## MEMORANDUM ON INTERNAL CONTROL

### SCHEDULE OF OTHER MATTERS

#### NEW GASB PRONOUNCEMENTS OR PRONOUNCEMENTS NOT YET EFFECTIVE

The following comment represents new pronouncements taking affect in the next few years. We cite them here to keep you informed of developments:

#### **EFFECTIVE FISCAL YEAR 2018/19:**

##### **GASB 83 – Certain Asset Retirement Obligations**

This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement.

This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO.

This Statement requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred. The best estimate should include probability weighting of all potential outcomes, when such information is available or can be obtained at reasonable cost. If probability weighting is not feasible at reasonable cost, the most likely amount should be used. This Statement requires that a deferred outflow of resources associated with an ARO be measured at the amount of the corresponding liability upon initial measurement.

This Statement requires the current value of a government's AROs to be adjusted for the effects of general inflation or deflation at least annually. In addition, it requires a government to evaluate all relevant factors at least annually to determine whether the effects of one or more of the factors are expected to significantly change the estimated asset retirement outlays. A government should remeasure an ARO only when the result of the evaluation indicates there is a significant change in the estimated outlays. The deferred outflows of resources should be reduced and recognized as outflows of resources (for example, as an expense) in a systematic and rational manner over the estimated useful life of the tangible capital asset.

## MEMORANDUM ON INTERNAL CONTROL

### SCHEDULE OF OTHER MATTERS

#### **GASB 83 – Certain Asset Retirement Obligations (Continued)**

A government may have a minority share (less than 50 percent) of ownership interest in a jointly owned tangible capital asset in which a nongovernmental entity is the majority owner and reports its ARO in accordance with the guidance of another recognized accounting standards setter. Additionally, a government may have a minority share of ownership interest in a jointly owned tangible capital asset in which no joint owner has a majority ownership, and a nongovernmental joint owner that has operational responsibility for the jointly owned tangible capital asset reports the associated ARO in accordance with the guidance of another recognized accounting standards setter. In both situations, the government's minority share of an ARO should be reported using the measurement produced by the nongovernmental majority owner or the nongovernmental minority owner that has operational responsibility, without adjustment to conform to the liability measurement and recognition requirements of this Statement.

In some cases, governments are legally required to provide funding or other financial assurance for their performance of asset retirement activities. This Statement requires disclosure of how those funding and assurance requirements are being met by a government, as well as the amount of any assets restricted for payment of the government's AROs, if not separately displayed in the financial statements.

This Statement also requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. If an ARO (or portions thereof) has been incurred by a government but is not yet recognized because it is not reasonably estimable, the government is required to disclose that fact and the reasons therefor. This Statement requires similar disclosures for a government's minority shares of AROs.

#### **GASB 88 – Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements**

The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

## MEMORANDUM ON INTERNAL CONTROL

### SCHEDULE OF OTHER MATTERS

#### **GASB 88 – Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements** **(Continued)**

##### ***How the Changes in This Statement Improve Financial Reporting***

The requirements of this Statement will improve financial reporting by providing users of financial statements with essential information that currently is not consistently provided. In addition, information about resources to liquidate debt and the risks associated with changes in terms associated with debt will be disclosed. As a result, users will have better information to understand the effects of debt on a government's future resource flows.

##### **EFFECTIVE FISCAL YEAR 2019/20:**

#### **GASB 84 – Fiduciary Activities**

The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less.

This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

A fiduciary component unit, when reported in the fiduciary fund financial statements of a primary government, should combine its information with its component units that are fiduciary component units and aggregate that combined information with the primary government's fiduciary funds.

This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets.

## MEMORANDUM ON INTERNAL CONTROL

### SCHEDULE OF OTHER MATTERS

#### **GASB 90 - Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61**

The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

#### **EFFECTIVE FISCAL YEAR 2020/21:**

#### **GASB 87 – Leases**

The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

## MEMORANDUM ON INTERNAL CONTROL

### SCHEDULE OF OTHER MATTERS

#### **GASB 87 – Leases (Continued)**

A lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment. Any contract that meets this definition should be accounted for under the leases guidance, unless specifically excluded in this Statement.

#### **GASB 89 – Accounting for Interest Cost Incurred before the End of a Construction Period**

The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

## MEMORANDUM ON INTERNAL CONTROL

### STATUS OF PRIOR YEAR SIGNIFICANT DEFICIENCIES

#### 2017-01 Payroll Database Access

Employees processing payroll should not have access to the payroll database to make changes to pay rates, benefits, deductions, additional pays, hour types (i.e. overtime hours versus regular hours), names, etc.

The City has a designated employee in the Human Resources (HR) Department review timecards for accuracy and make adjustments as necessary after the Departments send in the approved electronic timecards to payroll. Once HR completes its review and makes its adjustments to timesheet queries, HR notifies the Payroll Department to proceed with processing the payroll run.

After time cards are approved, the Payroll Department begins processing payroll. Per observation and inquiry, the employees processing payroll are able to make changes to pay rates, benefits, deductions, additional pays, hour types (i.e. overtime hours versus regular hours), names, etc. Some of these adjustments are detailed on "Pay Adjustment Worksheets," which are signed off by separate payroll employees who prepare and review the changes, but we understand these worksheets are not used for all changes made. Once the payroll process is complete, information is sent to the City Clerk for review and to issue the payroll checks/ACH. However, we understand the City Clerk does not perform a detailed review and only looks at "outliers" such as a large increase in overtime pay, overall pay, etc.

We understand the City's payroll process has followed the same work-flow for many years and all payroll employees have the ability to make changes to the pay rates and hour codes in order to process payroll timely.

Without the segregation of duties between those who process payroll and those who have access to making changes to the payroll database, there is an increased risk that, unauthorized pay or benefit increases and other errors may go undetected and not be corrected timely.

The City should remove access to the payroll database from the payroll processors and limit that access to HR. In the event that is not possible, a report of all payroll database changes should be generated during each payroll period and reviewed and approved by HR, the City Clerk's office or another appropriate person not involved with making the changes or processing payroll prior to the generation of the payroll checks.

#### ***Current Status:***

As recommended, beginning in the third quarter of fiscal year 2018, staff from the Human Resources Department is reviewing and approving all payroll database changes each and every pay period for validity. Additionally, the City continues to look at realigning duties and implementing technology enhancements to strengthen controls.

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## MEMORANDUM ON INTERNAL CONTROL

### STATUS OF PRIOR YEAR OTHER MATTERS

#### **2017-02      Developing Funding Plans for Fund Balance/Net Position Deficits**

At June 30, 2017, three of the City's funds reported unrestricted net position deficits. The City should develop funding plans for the deficits as noted below:

##### ***A. Cemetery Enterprise Fund Net Position Deficit***

The Cemetery Enterprise Fund unrestricted net position deficit grew to \$5.3 million at June 30, 2017. The fund records the receipt and use of monies for services provided at the Mission City Memorial Park. The Fund received a long-term advance from the General Fund that grew from \$4.9 million as of June 30, 2016 to \$5.2 million as of June 30, 2017, that is to be repaid when funds become available. The fiscal year 2018 budget does indicate revenues that equal expenses for the Fund, but does not provide for funds to be available to reduce the deficit or for repayment of any portion of the advance.

The City should perform a review of rates and costs in the Fund to determine if costs can be reduced or rates adjusted to work to eliminate the net position deficit and provide funds for repayment of the interfund borrowing. If the advance is not expected to be repaid within a reasonable period of time, Generally Accepted Accounting Principles require that the interfund balance be reduced and the amount that is not expected to be repaid should be reported as a transfer from the fund that made the loan to the fund that received the loan.

##### ***B. Workers' Compensation Insurance Claims Internal Service Fund Net Position Deficit***

The Workers' Compensation Insurance Claims Internal Service Fund reports a net position deficit of \$16.8 million as of June 30, 2017, which was an improvement of \$2.1 million from the prior fiscal year. The majority of the decrease in the deficit is due to the change in uninsured claims payable which decreased \$1.5 million during the fiscal year. The City must develop plans for funding the deficit to ensure cash is available when the claims come due.

#### **Update for June 30, 2018:**

The net position deficits for the Cemetery Enterprise Fund and the Workers' Compensation Insurance Claims Internal Service Fund increased to \$3.2 million and \$16.7 million, respectively as of June 30, 2018.

#### ***Current Status:***

The City continues to evaluate the unrestricted net position deficits and potential courses of action to eliminate or reduce the deficits in the future.

## MEMORANDUM ON INTERNAL CONTROL

### STATUS OF PRIOR YEAR OTHER MATTERS

#### 2017-03 Accuracy of Inventory Records

The City's inventory records should accurately reflect the physical inventory stored at the warehouse. The City's PeopleSoft inventory module should be used to record all uses/disposals and purchases/receipt of inventory items in real time.

We selected 25 inventory items for testing (13 from inventory records to physical assets and 12 from physical assets to inventory records) and noted the following exceptions when testing items at one of the City's warehouses:

- 4 Full Circle Clamps listed in the records, while 5 were on the shelves
- 5 Valves on the shelves while 2 were listed in the records
- 8 Luminaires on the shelves while 5 were listed in the records
- 5 Clamps on the shelves while 6 were listed in the records
- 48 Retainer Gland Kits on the shelves while 52 were listed in the records

We also completed additional testing based on the City's inventory exceptions report generated after the physical inventory process was completed on June 23, 2017 and we selected four inventory items from the PeopleSoft Inventory "Physical Accounting Reconciliation Report" to review the count performed by the warehouse staff as part of their annual physical inventory and noted the following exceptions:

- For Terminations, the count per the physical inventory on June 22, 2017 listed 128 units, while the inventory system report showed 415 units. It appears the physical count failed to include surplus items located on the higher shelves of the warehouse, which brought our count to a total of 412.
- 12,358 pounds of 397 MCM Bare Wire were on the shelves, while 4,599 pounds were listed in the records.
- 8,324 cubic feet of 1100 KCMIL Wire on the shelves, and 7,399 cubic feet were listed in the records.

Upon inquiry of warehouse staff, we understand discrepancies are typically due to City utility workers performing duties after-hours and there may be no warehouse personnel to accept returned inventory items that were requested and distributed, but not used on the job. Current warehouse procedures are to check in excess inventory with warehousing staff. Therefore, it appears that these procedures are not followed at all times. Staff also indicated the discrepancies may be due to the method of valuation used at the warehouse. For example, Wires are quantified in pounds and cubic feet in the records, but are requested by utility workers by the foot.

Although City staff determined that the year-end adjustment between the inventory records and the general ledger was only \$73,020, if policies and procedures are not followed, there is a higher risk of misstatement of the inventory valuation records and a higher risk of misappropriated assets.

## MEMORANDUM ON INTERNAL CONTROL

### STATUS OF PRIOR YEAR OTHER MATTERS

#### 2017-03 Accuracy of Inventory Records (Continued)

The City should review current practices and determine if additional procedures should be established for checking in unused inventory. This may help in documenting all inventory transactions occurring within the warehouse and improve year-end inventory and reporting processes.

***Current Status:***

Implemented - As reported in the previous year, procedures have been implemented to correct any deficiencies in this matter.

#### 2017-04 Retiree Personnel File Maintenance

We selected twenty-five retirees receiving other post-employment benefits (OPEB) to test the accuracy of the census data reported to the City's actuary to the personnel files.

One of the twenty-five personnel files could not be located by City staff.

As a result, we were initially unable to confirm that the information provided to the actuary was accurate. Although we were able to agree the information in the census data to the City's CalPERS retiree records, if the information that is used to calculate the OPEB liability is not readily available to ensure it is accurate, the actuarial calculations may be misstated.

City staff stated that the retiree file may be misfiled. We recommend that the City maintain and store personnel files, including retiree files, in a way that they can be located when needed and that the information in the files is substantial enough to confirm the census data provided to the actuaries is accurate.

***Current Status:***

As reported in the previous year, the City believes this was an isolated incident and has not re-occurred.

## MEMORANDUM ON INTERNAL CONTROL

### STATUS OF PRIOR YEAR OTHER MATTERS

#### 2017-05      Uniform Guidance Procurement Standards

The City is required to implement changes to its procurement policies and procedures in accordance with the Uniform Guidance procurement standards in 2 CFR 200.317 through 200.326 for any federally funded procurements beginning on or after July 1, 2018.

Since the City receives federal awards, a few of the general standards over procurement include:

- The City must have documented procurement procedures that reflect federal law, Uniform Guidance standards, and any state regulations.
- The City must maintain an appropriate level of oversight to ensure that contractors perform in accordance with the terms of their contracts or purchase orders.
- Written conflict-of-interest policies are required. No employee or agent of the City may participate in the selection, award, or administration of a contract funded by federal grant dollars if he or she has an actual or apparent conflict of interest.
- Entities should focus on the most economical solution during the procurement process, and must avoid using federal funds for the acquisition of unnecessary items. Organizations are encouraged to consider the use of shared services and intergovernmental agreements to foster greater economy and efficiency.
- The City must maintain records sufficient to detail the history of procurement, including the rationale for the method of procurement, contract type, and the basis for the contractor selection or rejection and price.

In addition to other requirements, the Uniform Guidance also requires full and open competition. Contractors who assist in drafting specifications for invitations for bids or requests for proposals (RFP) must be excluded from competing for those procurements.

The Uniform Guidance also outlines five methods of procurement to be followed for federally funded projects:

- Micro-purchase: Purchases where the aggregate dollar amount does not exceed \$3,000 (or \$2,000 if the procurement is construction and subject to Davis-Bacon). When practical, the City should distribute micro-purchases equitably among qualified suppliers. No competitive quotes are required if management determines that the price is reasonable.
- Small purchase: Includes purchases up to the Simplified Acquisition threshold, which is currently \$150,000. Informal purchasing procedures are acceptable, but price or rate quotes must be obtained from an adequate number of qualified sources.

## MEMORANDUM ON INTERNAL CONTROL

### STATUS OF PRIOR YEAR OTHER MATTERS

#### 2017-05 Uniform Guidance Procurement Standards (Continued)

- Sealed bids (formal advertising): Used for purchases over the Simplified Acquisition Threshold, which is currently \$150,000. Under this purchase method, formal solicitation is required, and the fixed price (lump sum or unit price) is awarded to the responsible bidder who conformed to all material terms and is the lowest in price. This method is the preferred procurement method for construction contracts if certain provisions apply.
- Competitive proposals: Used for purchases over the Simplified Acquisition Threshold, which is currently \$150,000. This procurement method requires an adequate number of qualified sources submitting an offer for either a fixed-price or cost-reimbursement contract, and is used when sealed bids are not appropriate. The contract should be awarded to the responsible firm whose proposal is most advantageous to the program, with price and other factors considered.
- Noncompetitive proposals: Also known as sole-source procurement, this may be appropriate only when specific criteria are met. Examples include when an item is available only from a single source, when a public emergency does not allow for the time of the competitive proposal process, when authorized by the federal awarding agency, or after a number of attempts at a competitive process, the competition is determined to be inadequate.

The provisions above are just highlights from the new procurement standards and the City should ensure that all of the procurement standards in the Uniform Guidance have been reviewed and that the applicable policies and procedures in place for fiscal year 2019.

#### *Current Status:*

As reported in the previous year, the City is aware of the new procurement standards and will fully comply with the requirements by the mandated dates.

#### 2017-06 Senate Bill 1029 - California Debt and Investment Advisory Accountability Reports

Senate Bill 1029 adopted in September 2016 is effective January 1, 2017 and amends Government Code Section 8855 that created the California Debt and Investment Advisory Commission (CDIAC).

SB1029 indicates that: State and local agencies should adopt comprehensive written debt management policies pursuant to the recommendation of the Government Finance Officers Association, a professional organization of over 18,000 public officials united to enhance and promote the professional management of governmental financial resources. These policies should reflect local, state, and federal laws and regulations.

SB1029 also indicates that it is the intent of the Legislature that all debt issuance of state and of local governments be published in a single, transparent online database that allows the citizens of California to analyze, interpret, and understand how debt authorized by the public is utilized to finance facilities and services at the state and local level.

## MEMORANDUM ON INTERNAL CONTROL

### STATUS OF PRIOR YEAR OTHER MATTERS

**2017-06      Senate Bill 1029 - California Debt and Investment Advisory Accountability Reports  
(Continued)**

The first annual debt transparency report is due January 31, 2018 for the year ended June 30, 2017, if the City issues debt during that period. The reporting requirements are triggered when debt is issued and continue until the debt is no longer outstanding or the proceeds have been fully spent.

The City should review the provisions of Government Code Section 8855 to ensure the necessary debt policy(ies) are in place and procedures are developed to implement the required annual debt transparency report to CDIAC when it is applicable.

***Current Status:***

As reported in the previous year, the City is aware of the requirements of SB 1029 and will fully comply with the requirements by the mandated dates.

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